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CHIEF EXECUTIVE OFFICE
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SACHI A. HAMAI
Chief Executive Officer

September 25, 2019

To: Supervisor Janice Hahn, Chair
Supervisor Hilda L. Solis
Supervisor Mark Ridley-Thomas
Supervisor Sheila Kuehl
Supervisor Kathryn Barger

From: Sachi A. Hamai
Chief Executive Officer

SHERIFF'S DEPARTMENT FISCAL YEAR 2018-19 YEAR-END CLOSING

The purpose of this memorandum is to inform the Board of Supervisors (Board) that the Sheriff's Department (Department) closed Fiscal Year (FY) 2018-19 with a $90.2 million year-end deficit (gross amount). Based on our office's preliminary analysis, the deficit was primarily attributable to significant over-expenditures in salaries and employee benefits and under-realization of Departmental revenues. We also determined that a total of $26.8 million in one-time expenses were either unforeseeable or the timing could not be controlled by the Department (i.e. $16.0 million for Woolsey Fire costs and $10.8 million in litigation costs). As a result, during the Supplemental Budget our office will recommend that the $26.8 million be covered by the General Fund. Our office will further recommend that the remaining deficit of $63.4 million be addressed through a four-year loan with an annual repayment amount of $15.9 million beginning in FY 2019-20. More detailed information regarding the Sheriff's budget deficit is provided in the Attachment.

While the Department's core mission is to ensure public safety, the responsibility to safeguard limited public resources is equally applicable and important. Once the Department identified a potential year-end deficit, a financial plan should have been implemented with fiscal staff closely monitoring and adjusting spending as needed. If early signs indicated that the plan would not fully address the projected deficit, the Department should have reached out to our office to collaboratively develop a more robust plan. These steps were not taken resulting in the Department closing with a deficit which, in turn, reduced the amount of available General Fund Balance that could have been used to address other critical County needs.

Given the size of the deficit and the Department's shortfall, legitimate questions have arisen as to the Department's ability to manage its budget. Consequently, it would be prudent to implement a deficit mitigation plan to prevent and/or substantially reduce the likelihood that the Department will close FY 2019-20 with another deficit in this order of magnitude. Major components of the plan are referenced and presented below for your consideration:

1) CEO to continue to continue working cooperatively with Departmental fiscal staff to implement a sound budget deficit mitigation plan addressing both appropriation overspending and revenue shortfalls;

2) Transfer $143.7 million in appropriation from the Department to the Provisional Financing Uses budget to prevent further deficits from occurring; and

3) Request the Auditor-Controller, in collaboration with our office, to conduct an operational review with a team of experts to assist the Department in identifying areas that can be more efficient and ensure that the Department operates within its Board-adopted budgeted amounts.

Additional mitigation strategies are listed on page 5 of the Attachment and can potentially be considered by the Board for implementation.

On Friday, September 20, 2019, my team and I met with the Sheriff and his team to discuss ways in which we can partner to right-size the Department's budget. The Sheriff identified areas that his team has started to assess and indicated that a preliminary report on the work he is doing to reduce his deficit will be available in late October 2019. Our office remains available to assist the Department to address its fiscal challenges and minimize, to the extent feasible, any impact to Departmental operations.

If you have any questions, please contact Sheila Williams at (213) 974-1155 or at swilliams@ceo.lacounty.gov.

SAH:FAD:MM
SW:RCP:cc

Attachment

c: Executive Office, Board of Supervisors
County Counsel
Sheriff
Auditor-Controller

SHERIFF'S DEPARTMENT DETAILED INFORMATION

County Budget Process

The County's budget process is shaped by several financial and operational polices. These policies promote and ensure organizational continuity, consistency, transparency, and responsibility from year to year. In addition, these policies provide fiscal management tools that departments are expected to employ to guarantee fiscal and programmatic integrity.

It is through the annual budget process and resulting documents that the County demonstrates its accountability to its residents, governmental partners, and the community-at-large. The Board-approved Final Adopted Budget provides the legal authority for expenditures and is expected to be used as a means for controlling departmental operations and expenditures throughout the fiscal year.

The budget process furnishes each department with an opportunity to justify departmental programs, propose changes in services, and to recommend revisions in organizational structure and work methods. The Chief Executive Office (CEO) then reviews these aspects and makes recommendations to the Board. The Board ultimately authorizes the final appropriations, determines basic organizational and personnel staffing levels, and establishes the level of services to be rendered within the limited available resources.

For the Department to exceed its authorized appropriations is to disregard this process, the Board's authority with respect to the budget, and erode the credibility of the County with its residents. The purpose of the adopted budget is to provide effective fiscal oversight of each County department and ensure that the County remains fiscally sustainable and healthy. If the adopted budget proves to be insufficient in addressing the needs of a department due to issues outside of the department's control, it is incumbent on the department and their fiscal staff to make the CEO aware so that these issues can be cooperatively and collaboratively be resolved. Balancing a department's operating budget is at the heart of sound fiscal management.

Budget Status Reports

All County departments are required to prepare periodic budget status reports (BSR) during the fiscal year. The BSR is the tool that the County uses to monitor and measure budgetary performance. It provides an early warning of potential problems and gives decision makers time to consider actions that may be needed if major deviations become evident. The BSR serves as both a status and forecasting document. First the BSR summarizes the financial status of a department's estimated expenditures and revenues in comparison to the budgeted amounts and highlights areas of concerns. This estimate also allows staff to approximate how a department may close its budget (i.e., savings or deficit). The primary goal of the BSR is to confirm that a department can meet its fiscal obligations and, in the Sheriff's case, continue to ensure the safety of County residents.

A BSR is submitted by each County department to our office at the following intervals: 5th, 7th, 9th and 11th month period of the fiscal year. The BSR requires the signature of the department head confirming that the numbers provided to our office are accurate.

BSRs submitted by the Sheriff's Department during FY 2018-19 are reflected below in Table 1:

Table 1

Summary of Budget Status Reports Fiscal Year 2018-19 $ in Millions			
5th Month	7th Month	9th Month	11th Month
$0	($25.522)	($25.522)	($62.397)

This report is intended to provide not only our office, but also the Sheriff's Department fiscal staff an overview and assessment of the Department's current fiscal status. Once the Department's fiscal staff informed the Sheriff of the projected deficit in the 7th month BSR, a fiscal plan should have been developed to ensure the Department closed the year with a balanced budget. Fiscal staff should have worked with the Sheriff to implement a fiscal plan and closely monitor and adjust spending as needed. If the aforementioned could not be accomplished without negatively impacting public safety and the many other services and programs provided by the Department, a meeting should have been scheduled with the CEO's office to discuss the next steps. However, this did not occur.

Semi-Annual Reports to the Board

On June 26, 2017, the Board directed the CEO, in conjunction with the Auditor-Controller and the Department, to report semi-annually with an overview of the financial status of the Department. Reports were issued on April 2018, November 2018 and May 2019. In general, the Department indicated they would continue to manage its budget with various funding solutions, including the implementation of a Department-wide reduction in overtime, reduction in services and supplies and capital asset purchases. However, the Department also indicated they would review, in detail, the following areas:

- Perform an in-depth analysis to ensure overtime costs are directly tied to vacancies;
- Identify a permanent budget solution to properly align the retiree health insurance and workers' compensation, separation pay and miscellaneous earnings pay budget with actuals;
- Review current and prior-year encumbrances to determine if they can be cancelled;
- Determine if they can realign services and supplies and capital asset appropriations to salaries and employee benefits;

- Evaluate if ongoing service/program reductions in parks, unincorporated area patrol, detectives and custody operations are feasible;
- Perform a more comprehensive review of its revenue-offset programs, completely segregated from the Department's net County cost budget to determine if the revenue collected is fully offsetting the costs of the program;
- Review its special funds and trust accounts to ensure that all allowable general fund expenditures are being fully reimbursed;
- Perform a comprehensive review of its ongoing expenditures compared to ongoing revenues, service levels and corresponding funding sources, and operational staffing levels by function;
- Determine if ongoing reductions to overtime are feasible/warranted;
- Work to realign the Department's budget to reflect its current operational structure and establish costs centers to more accurately reflect and track expenditures;
- Continue to assess other internal mitigation efforts available; and
- Work with CEO to develop a multi-year financial plan;

As of this date, our office is not aware if any of these reviews have occurred. Our office requested a status report from the Department's fiscal staff on July 15, 2019.

FY 2018-19 Year-End Closing

At the close of FY 2018-19, the Department ended with a deficit of $90.2 million. They exceeded the 11th month BSR estimate by $28.0 million. Despite early indications that the Department was going to close the fiscal year with a deficit, no mitigation plan was developed and implemented and thus the deficit grew by $65.0 million at year-end.

Based on our office's preliminary analysis, the deficit was primarily attributable to over-expenditures in salaries and employee benefits ($97.6 million), other charges ($8.7 million) and under-realization of revenue ($57.2 million). Those over-expenditures were partially offset by savings in services and supplies ($45.6 million), capital assets ($18.8 million), an increase in intra-fund transfers ($4.7 million) and prior year savings ($4.1 million).

Our analysis further indicates that overtime, workers' compensation, separation pay, miscellaneous earnings pay, and retiree health insurance are the primary factors contributing to the Department's over-expenditures in salaries and employee benefits. Lastly, we noted that when over-expenditures in overtime (exceeded budget by $146.7 million) were excluded, a net saving of $49.1 million would have been realized in salaries and employee benefits.

Another factor contributing to the Department's deficit was the $57.2 million shortfall in revenue. Further analysis by staff is needed to thoroughly explain why budgeted revenues were not received as anticipated during the fiscal year.

At year end, because the Sheriff's Department had a deficit, we had to utilize General Fund balance that would have normally been made available to address one-time critical County needs. As a result, my office recommends that the Sheriff's Department repay, over a four-year period, approximately $63.4 million of the Department's $90.2 million deficit (see Table 2). An annual repayment amount of $15.9 million should be deducted from the Department's services and supplies appropriation for FY 2019-20 to begin to facilitate this repayment.

Table 2

Sheriff's FY 2018-19 Year-End Closing $ in Millions	
Total Expenditures	($33.0)
Total Revenues	($57.2)
Total Net County Cost (NCC)	**($90.2)**
Less Unforeseen Expenditures:	
Woolsey Fire	$16.0
Judgement & Damages	$10.8
Revised NCC	**($63.4)**

FY 2019-20 Fiscal Plan

Moving forward, the Sheriff, and his staff, should develop a deficit reduction mitigation plan, to reduce expenditures. A well-designed plan involves a review of all potential budget reduction options and identifies the preferred approaches to closing the Department's budget deficit/balancing the budget. The options considered should attempt to minimize the impact on direct services to County residents while simultaneously allowing the Department to continue to meet its core mission. The plan should also address the Department's planned expenditures for the current year and guide future fiscal strategies for the out years.

The Department should also develop a multi-year financial plan. A multi-year plan projects revenues and expenditures for several years into the future. It illustrates what will happen to the Department's ability to pay for and provide services, given a set of policy and economic assumptions. These projections will help the Sheriff and his fiscal staff assess expenditure commitments, revenue trends, and the affordability of new services and infrastructure investments not only for the current year, but the fiscal years to come.

These plans, should include, at a minimum, the projected baseline shortfall/deficit for each fiscal year, opportunities for revenue enhancements, and the budget and operational impact of any proposed reductions in services and programs. Once completed, the Department should share these plans with my office.

The above process will allow the Department to gain perspective on its proposed options and help to guide the development of a short-term and long-range financial stability. Ultimately, our collective goal is to ensure a balanced budget for the current year and the long-term financial sustainability of the Department.

Possible Mitigation Strategies

The deficit reduction mitigation plan developed should ensure that funding priority is given to statutorily mandated or "core mission" services; budget reduction proposals are in alignment with the County's strategic plan/goals; elimination of duplicative or underperforming programs/services; streamlining and consolidation of programs, divisions, units, and services; development of efficiencies; reduction in layers of management and administration; and ensuring full cost recovery for services provided.

Potential mitigation options for the Department's consideration are as follows:

- **Overtime:** Reduce expenditures.
- **Encumbrances:** Departmental review of open encumbrances for cancellation.
- **Hiring Freeze:** Implement a freeze on non-sworn positions.
- **Ordinance/120-day Rehire Retirees:** Moratorium on use of ordinance only items, including 120-day Rehire Retirees. Sheriff to only use vacant budgeted positions.
- **Travel & Training:** Freeze on travel/training except for mandated and/or grant and special revenue funded travel and training.
- **Services & Supplies:** Freeze on services and supplies above the approximately $45.6 million saved in FY 2018-19.
- **Capital Assets:** Freeze on Capital Assets above the approximately $18.8 million saved in FY 2018-19.

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